CPP ANNUAL USE OF CAPITAL SURVEY - 2011

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Monadnock Bancorp, Inc.

Point of Contact:	Karl F. Betz	RSSD: (For Bank Holding Companies)	0
UST Sequence Number:	227	Docket Number: (For Thrift Holding Companies)	4287
CPP/CDCI Funds Received:	1,834,000	FDIC Certificate Number: (For Depository Institutions)	34167
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Peterborough
Date Repaid[1]:	N/A	State:	New Hampshire

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

___ **Increase lending or reduce lending less than otherwise would have occurred.**

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☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

☐ **Increase securities purchased (ABS, MBS, etc.).**

☐ **Make other investments.**

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X **Increase reserves for non-performing assets.**

During 2011, we provided $1.03 million in the allowance for loan losses compared with $1.3 million during 2010.

☐ **Reduce borrowings.**

X **Increase charge-offs.**

During 2011, net charge-offs totaled $1.36 million compared with $730,000 for 2010.

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☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

As a result of a Cease and Desist order from our regulators in November 2010, we have been restricted from making, renewing or restructuring any new or existing commercial loans that were not in our pipeline as of August 2010. A discussion follows from our Annual Report for loan changes to our net loan portfolio during 2011. Our net loan portfolio decreased by $11.7 million, or 18.7%, to $50.8 million at December 31, 2011 from $62.4 million at December 31, 2010. Loan reductions during the year ended December 31, 2011 were primarily concentrated in commercial loans, commercial real estate loans, one- to four-family residential loans and consumer loans which decreased by $4.4 million, $3.5 million, $2.7 million and $750,000, respectively. The decrease in commercial loans of $4.4 million was primarily due to the payoff of $1.3 million in loans during 2011, the charge-off of $856,000 in commercial loans as well as the transfer of $840,000 in loans to an SBA receivable that was subsequently collected during 2011. The Cease and Desist order issued by the Office of Thrift Supervision prohibits the Bank from originating any new commercial loans which had a negative impact on loan growth and restricted the Bank from extending or rewriting any matured lines of credit during 2011, which resulted in increased loan payoffs as well as increased loan charge-offs. The decrease in commercial real estate loans of $3.5 million was primarily due to the payoff of $2.2 million in loans during 2011, of which one loan for $1.4 million related to one customer. In addition, loan charge-offs for commercial real estate loans totaled $240,000 while foreclosures on commercial real estate loans totaled $270,000. The Cease and Desist order issued by the Office of Thrift Supervision prohibits the Bank from originating any new commercial loans which had a negative impact on loan growth. The reduction in one- to four-family residential loans of $2.7 million was due to $3.7 million in loan payoffs during the year, loan charge-offs of $154,000 as well as foreclosures on one- to four-family residential loans which totaled $185,000. In addition, our decision to originate and sell production of 15-year and 30-year fixed rate mortgages during 2011 reduced our growth in this loan category during the year. During the middle of 2011, the Bank began offering a new mortgage product known as the Debt Buster mortgage which allows the borrower to choose a term from 3 to 14 years. The Bank originated $2.5 million in Debt Buster mortgages while originating $2.8 million in total mortgages during 2011. The decrease in consumer loans of $750,000 was primarily attributable to a reduction of mobile home and automobile loans which decreased $371,000 and $170,000, respectively, during 2011. As part of the Cease and Desist order, we are required to maintain a Tier 1 Core Capital ratio equal to or greater than 7% and a Total Risk-Based Capital ratio equal to or greater than 12%. As a result of having the $1.8 million of CPP in capital, we were able to maintain a Tier 1 Core Capital and Total Risk Based Capital of 8.45% and 17.82%, respectively, at December 31, 2011.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.